



ecoDa's Response to the EC Public consultation on non-financial reporting guidelines

About ecoDa:

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The European Confederation of Directors' Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium.

Through its national institutes of directors (the main national institutes existing in Europe), ecoDa represents around 55,000 board directors from across the EU. ecoDa's member organisations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted.

ecoDa's mission is

- to promote the role of directors, to develop professionalism and European governance standards by acting as a standing body where national experiences in terms of corporate governance are shared and discussed, by developing recommendations and education programmes in complement with those developed by its members;*
- to influence the European decision-making process related to corporate governance by reacting directly to the European institutions or by pro-actively taking initiatives of actions aimed at generating European debate and reflection on corporate governance;*
- to provide services to its members, mainly by providing information regarding relevant European issues;*
- to facilitate at a European level the creation and the development of national director institutes dealing with corporate governance and attract new members in order to strengthen the European representativeness of the Confederation.*

General Statement:

The European Confederation of Directors' Associations (ecoDa) is in favour of all initiatives that support long-term sustainability and better accountability. As a consequence, we believe that good Corporate Governance requires adequate attention to non-financial reporting.

This being said, we also acknowledge that requirements of far-reaching and detailed reporting of non-financial information might involve significant administrative work, especially demanding for companies in the smaller-size end of those affected by the directive. ecoDa therefore considers it of

utmost importance that EU-level regulation is constrained within limits that do not risk to jeopardize the competitiveness of European listed companies vis-à-vis other ownership models and their overseas competitors.

The directive shows an appropriate degree of flexibility that leaves countries as well as companies reasonable room for adapting the implementation to national and company-specific circumstances. We think it is important that the forthcoming guidelines are not used to hamper this flexibility or increase the administrative burden and costs for the companies compared with the requirements of the directive. The purpose of the guidelines should be to facilitate for companies to apply the directive, not to increase the amount, prescriptiveness or detail level of the required information.

Q1 What aspects of disclosure of non-financial information do you think that should be addressed by the GUIDELINES?

Please, order in terms of importance (1 least important, 9 most important)

9 Materiality/Relevance

7 Usefulness

3 Comparability

8 Avoiding undue administrative burden

2 Comprehensiveness

5 Fairness and balance

4 Understandability

6 Reliability

o Other, please specify: text

That the information is of material relevance (which also implies that it is useful and reliable) and that the reporting does not give rise to undue administrative burdens are by far the most important factors.

At the other end of the scale, a high degree of comparability across companies, sectors and countries will be difficult to achieve - the same approach will not fit all.. If the Commission sets its goals too high in this respect, the risk is to end up with an unduly prescriptive standard, which in turn risks leading to a box ticking and boiler-plate behaviour.

Q2 Who should be considered in your opinion the main audience of the non-financial statement?

Please, check the box of the alternative that you consider more appropriate.

7 The shareholders

6 The investment community in a broad sense

o Users of information with an economic interest, such as suppliers, customers, employees, etc.

o All users of information (including consumers, local communities, NGOs, etc.)

o Other, please specify:

Q2.1 Would you, please, provide a brief explanation? *(text – 400 characters)

The two indicated audiences are the obvious top-priority target groups for this information. Apart from this it should be up to each company to define its relevant audiences, especially since the importance of non-financial information varies a lot from one sector to another.

Q3 In your opinion, what features make a piece of information material/relevant for the purposes of the non-financial statement?

Please, order in terms of importance (1 least important, 7 most important)

- o Useful for the management/directors of the company
- 7 Relevant for shareholders or investors' decision-making
- o Necessary to understand the impacts of the company's activity
- o Necessary to understand the company's development, performance and position
- o Necessary to understand how the company manages non-financial risks
- o Other, please specify: text

Q3.1 Would you, please, provide a brief explanation? *(text – 400 characters)

It follows from our answers to Q1 and Q2 that the materiality/relevance for shareholders' or investors' decision-making is the most important factor here. Except for the first alternative (which is of less importance since these categories should normally already be familiar with this information), the other factors are rather to be seen as sub-categories than alternatives to the marked factor.

II. Content of the non-binding guidelines

Q4 Do you think that the GUIDELINES will be more useful for companies and users if they set out general principles and key ideas or if they put forward solutions in a detailed manner, including on specific sectoral issues? *

Please, indicate on a scale from 1 to 5 (1 geared towards general principles, 5 high level of detail/prescription)

1

Q4.1 Would you, please, provide a brief explanation? *(text – 400 characters)

The objective should be to develop a general framework that can be complemented for individual companies by non-binding minimum indicators taken from existing international frameworks. By using these different guidelines, over time we will move towards a more aligned approach. The guidelines should be illustrated by examples, and it is important to develop competence-building and training for the business community.

The Financial Reporting Lab in the UK provides an innovative new means of testing proposed disclosures. It brings both investors and companies together into an intensive dialogue and testing process before any new disclosure regulations are implemented. The aim is to ensure that any new disclosure requirements will genuinely add value, and not just represent an additional costly disclosure

burden for companies. A similar approach, transformed to fit into a non-binding guidelines context, might be a fruitful way forward.

Q5 Please, provide a brief description of how you think that the following matters should be treated in the GUIDELINES, including as appropriate how they should be defined and described:

This question represents a case in point as to our concern about the guidelines developing into a complementary regulation that will go beyond the spirit and letter of the directive in terms of detail level and prescriptiveness. If companies are requested to comment more or less extensively on these issues, this may easily develop into quite elaborate reports that will require considerable effort and costs. Besides it may add to in many cases already extensive annual reports without adding much value to the audiences.

Against this background we abstain from further elaborating on these topics and propose to more or less leave it to individual companies to outline their reporting in this respect according to their specific circumstances, based on the guidance already given in the directive.

- a. Business model (text – 400 characters)
- b. Policies (text – 400 characters)
- c. Due diligence process (text – 400 characters)
- d. Business relationships (text – 400 characters)
- e. Key performance indicators –KPIs (text – 400 characters)
- f. Outcome of policies (text – 400 characters)
- g. Principal risks (text – 400 characters)
- h. Impact of the activity (text – 400 characters)
- i. Adverse impacts (text – 400 characters)
- j. Information omitted in exceptional cases where disclosure would be seriously prejudicial (text – 400 characters)

Q6 How do you think that the GUIDELINES should approach the disclosure of key performance indicators (KPIs)? *

Please, indicate your two preferred approaches (1 Best option, 2 Second preferred option).

1 The GUIDELINES should highlight key principles on how to disclose relevant KPIs and complementariness with narrative and/or financial information as applicable

The GUIDELINES should make reference to KPIs proposed by other frameworks where addressing concrete matters or issues

The GUIDELINES should include a comprehensive list of KPIs, general and sectoral

2 The GUIDELINES should provide flexibility for companies to exercise judgment in deciding what KPIs should be included in their disclosures

Other, please specify: text

Q6.1 Would you, please, provide a brief explanation? *(text – 400 characters)

ecoDa wants to emphasize that directors are generally in favor of framing the recommended publication of non-financial and diversity information into a useful and relevant (but certainly not comprehensive) reference framework. Firms and their (sector) federations might be stimulated to enter

into intensive dialogues with their shareholders (organisations/representatives) and stakeholders to investigate what types of non-financial information that make most sense and that they consider crucial to have a better view on the long-term perspectives of the firm, the outcome of its strategy and the risks involved in its business operations.

Q7 Do you think that the GUIDELINES should include guidance on specific sectoral issues such as responsible supply chain management of conflict minerals? * Please, indicate on a scale from 1 to 5 (1 geared towards general principles, 5 high level of detail/prescription)

1

Q7.1 Would you, please, provide a brief explanation? *(text – 400 characters)

As repeatedly underlined in our response, ecoDa is in favor of a principles-based approach, whenever possible and relevant illustrated by practical examples. Hence ecoDa would consider appropriate the creation of stakeholders' platforms by sector, managed by their respective federations, in order to set up generally accepted principles for NFR at sector level.

Q8 How do you think that the GUIDELINES should relate to existing national, international or other EU-based frameworks (such as UN Global Compact, the UN Guiding Principles on Business and Human Rights, OECD guidelines for multinational enterprises, the ILO Tripartite Declaration of principles concerning multinational enterprises and social policy, EMAS, etc.)?*

Please, order in line with your views (1 least in line, 6 most in line)

- 1 The GUIDELINES should include detailed solutions and be an exhaustive document in a way that could make unnecessary for companies the use of other guidelines
- 2 The GUIDELINES should be complementary to other frameworks
- 6 The GUIDELINES should make reference to other frameworks where addressing concrete matters or specific issues
- 3 The GUIDELINES should get general inspiration from other frameworks
- 5 The GUIDELINES should explain how content produced in the context of other frameworks could be used in the non-financial statement
- Other, please specify: text

Q8.1 Would you, please, provide a brief explanation? *(text – 400 characters)

Also in this context ecoDa favours a framework of principles, complemented by non-binding minimum indicators taken from existing international frameworks. This approach aims to limit unnecessary administrative burdens for companies (with a set of relevant but non-comprehensive indicators) while providing investors and other stakeholders with useful information.

Q9 Do you think that when preparing the GUIDELINES only the companies included in the scope of the DIRECTIVE should be considered, or that the interests, characteristics and/or requirements of other companies that prepare management reports should be taken into account as well? *
Please, check the box of the alternative that you consider most appropriate.

- Specific to the requirements of the companies under scope of the DIRECTIVE
- Consider all large companies
- Consider all companies

o Focus on the requirements of the companies under the scope of the DIRECTIVE, but also propose best practice for other companies that prepare management reports

Q9.1 Accordingly, do you think that the content of the guidelines should be different according to the targeted companies? Would you please, provide a brief explanation? *(text – 400 characters)

It is important that the guidelines are addressed to the companies under the scope of the directive. However, other types of companies might be inspired by them.

Q10 [only for respondents that are companies]

Does your company disclose annually relevant non-financial information?

Yes

No

If so, does your company use any existing reporting framework(s)? Yes

No

If so, would you, please, indicate which one(s)? (text – 100 characters)

9

IV. Disclosures related to board diversity policy

Q11 Should the GUIDELINES provide more clarity on what companies should disclose as regards their board diversity? *

Yes

No

No position

Q11.1 Would you, please, provide a brief explanation? *(text – 400 characters)

ecoDa considers educational background, professional competence and practical experience as the key factors of diversity. Too often in the international debate board diversity is understood to mean primarily gender diversity. This aspect is certainly relevant but should not be placed before such more fundamentally important (irrespective of gender) attributes for the performance of individual board members as well as the board as a whole.

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Our member organizations:

ecoDa full members:

- The British "Institute of Directors" (IoD)
- The Belgian GUBERNA
- The French IFA
- The Luxembourg ILA
- The Directors' Institute of Finland
- The Spanish institute "Instituto de Consejeros – Administradores"
- The Slovenian Directors' Association
- The Polish Institute of Directors
- The Norwegian Institute of Directors
- The Swedish StyrelseAkademien
- Vereinigung der Aufsichtsräte in Deutschland e.V., VARD
- The Dutch "Nederlandse vereniging van Commissarissen en Directeuren"
- The Italian Directors' Association, Nedcommunity
- The Portuguese Forum de Administradores de Empresas (FAE)

ecoDa affiliated members (national institutes of directors):

- The Croatian Institute of Directors
- The Macedonian Institute of Directors, MIoD
- The Corporate Governance Institute Albania (CGIA)

Correspondents:

- The Malta IoD Branch,
- The Cyprus IoD Branch,
- Bistra Boeva (CG expert in Bulgaria)

Corporate Associates (national institutes of directors):

- The Danish Board Network